

Financial Statements

KENTUCKY STATE FAIR BOARD

June 30, 2008 and 2007

KENTUCKY STATE FAIR BOARD

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June 30, 2008 and 2007

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Kentucky State Fair Board
Louisville, Kentucky

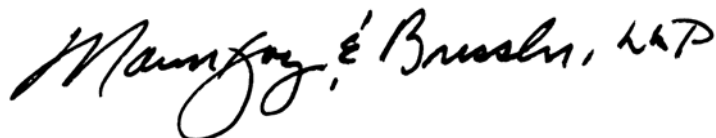
We have audited the accompanying financial statements of the Kentucky State Fair Board (Fair Board), a component unit of the Commonwealth of Kentucky, as of and for the years ended June 30, 2008 and 2007, as listed in the table of contents. These financial statements are the responsibility of the Fair Board's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Kentucky State Fair Board as of June 30, 2008 and 2007, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 29, 2008, on our consideration of the Fair Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The Management's Discussion and Analysis on pages 2 through 7 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Louisville, Kentucky
September 29, 2008

KENTUCKY STATE FAIR BOARD

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

As management of the Kentucky State Fair Board (Fair Board), a component unit of the Commonwealth of Kentucky, we offer the readers of the Fair Board's financial statements this narrative overview and analysis of the financial performance of the Fair Board for the fiscal years ended June 30, 2008 and 2007. We encourage readers to read it in conjunction with the Fair Board's financial statements and the accompanying notes.

FINANCIAL HIGHLIGHTS

- Cash and cash equivalents decreased \$1,567,658 (17%)
- Accounts receivable (net) increased \$97,254 (3%)
- Property, plant and equipment (net) increased \$6,145,956 (2%)
- Capital lease obligations decreased \$509,784 (7%)
- Bonds payable decreased \$2,404,183 (4%)
- Net assets decreased \$5,579,647 (2%)
- Operating revenues increased \$2,490,017 (6%)
- Operating expenses increased \$3,382,096 (7%)
- Operating loss increased \$842,079 (18%)
- Non-operating revenues (net) decreased \$51,572,479 (as compared to an increase of \$51,630,135 in 2007)
- Interest and investment revenue decreased \$204,819 (28%)

OVERVIEW OF THE FINANCIAL STATEMENTS

This financial report consists of three parts: Management's Discussion and Analysis (this section), the basic financial statements, and the accompanying notes to the financial statements. The Kentucky State Fair Board is a self-supporting entity and follows enterprise fund reporting; accordingly, the financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Enterprise fund statements offer short and long-term financial information about the activities and operations of the Fair Board. These statements are presented in a manner similar to those of a private business.

The statement of net assets presents information on all of the Fair Board's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Fair Board is improving or deteriorating.

The statement of revenues, expenses, and changes in net assets presents information showing how the Fair Board's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The statement of cash flows provides relevant information about the cash receipts and cash payments of the Fair Board during the fiscal year. The statement should help users assess the Fair Board's ability to generate future net cash flows, meet future obligations as they become due, the Fair Board's need for future external financing, the reasons for differences in operating and related cash receipts and cash payments, and the effects on financial position of cash and non-cash investing, capital, non-capital, and financing activities.

KENTUCKY STATE FAIR BOARD

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the financial statements can be found on pages 11-17.

FINANCIAL ANALYSIS OF THE FAIR BOARD

Condensed Financial Information (in thousands)

Statements of Net Assets

As of June 30

	2008	Percentage Increase (Decrease)	2007	Percentage Increase (Decrease)	2006
Current assets	\$ 11,454	-12.0%	\$ 13,010	-6.1%	\$ 13,859
Non-current assets	<u>274,644</u>	-2.7%	<u>282,338</u>	18.9%	<u>237,492</u>
Total assets	<u>286,098</u>	-3.1%	<u>295,348</u>	17.5%	<u>251,351</u>
Current liabilities	10,254	-6.1%	10,919	-0.5%	10,973
Non-current liabilities	<u>57,662</u>	-5.0%	<u>60,667</u>	-4.4%	<u>63,451</u>
Total liabilities	<u>67,916</u>	-5.1%	<u>71,586</u>	-3.8%	<u>74,424</u>
Invested in capital assets, net of related debt	213,596	1.9%	209,524	24.7%	167,964
Restricted	1,685	-81.7%	9,194	210.1%	2,965
Unrestricted	<u>2,901</u>	-42.5%	<u>5,044</u>	-15.9%	<u>5,998</u>
Total net assets	<u>\$ 218,182</u>	-2.5%	<u>\$ 223,762</u>	26.5%	<u>\$ 176,927</u>

KENTUCKY STATE FAIR BOARD

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FINANCIAL ANALYSIS OF THE FAIR BOARD (CONTINUED)

Condensed Financial Information (in thousands)
Statements of Revenues, Expenses, and Changes in Net Assets
For the Fiscal Years Ended June 30

	<u>2008</u>	<u>Percentage Increase (Decrease)</u>	<u>2007</u>	<u>Percentage Increase (Decrease)</u>	<u>2006</u>
Operating revenues:					
Charges for services	\$ 39,841	7.4%	\$ 37,107	-0.7%	\$ 37,377
Lease income	<u>3,020</u>	-7.5%	<u>3,264</u>	5.4%	<u>3,096</u>
Total operating revenues	<u>42,861</u>	6.2%	<u>40,371</u>	-0.3%	<u>40,473</u>
Operating expenses:					
General and administrative	9,067	0.2%	9,049	0.2%	9,033
Operating	12,463	6.1%	11,741	0.5%	11,679
Direct cost of events	17,956	8.0%	16,623	6.2%	15,657
Depreciation and amortization	<u>9,013</u>	16.3%	<u>7,753</u>	8.8%	<u>7,129</u>
Total operating expenses	<u>48,499</u>	7.4%	<u>45,166</u>	3.8%	<u>43,498</u>
Loss from operations	<u>(5,638)</u>	17.6%	<u>(4,795)</u>	58.5%	<u>(3,025)</u>
Non-operating revenues	<u>58</u>	-99.9%	<u>51,630</u>	10861.8%	<u>471</u>
Change in net assets	(5,580)	-111.9%	46,835	-1933.8%	(2,554)
Net assets, beginning of year	<u>223,762</u>	26.5%	<u>176,927</u>	-1.4%	<u>179,481</u>
Net assets, end of year	<u>\$ 218,182</u>	-2.5%	<u>\$ 223,762</u>	26.5%	<u>\$ 176,927</u>

KENTUCKY STATE FAIR BOARD

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FINANCIAL ANALYSIS OF THE FAIR BOARD (CONTINUED)

Direct cost of events primarily represent personnel costs directly allocable to events such as operations, housekeeping staff, grounds keeping staff, and hired labor, entertainment costs, promotional costs, premiums, prizes and awards, and special materials and services.

Non-operating revenues consist primarily of interest and investment revenue, advertising revenue, other non-event income, interest expense, and net payments from the Commonwealth.

During 2008 and 2007, the Fair Board's investments were primarily limited to the state investment pool and investment earnings decreased significantly during 2007 as invested balances were utilized to finance the Fair Board's construction projects. Interest expense relates primarily to the debt service on the bonds payable.

During 2008, amounts received from the Commonwealth of Kentucky included \$842,283 to fund the North Wing construction project, and \$246,800 for the annual NAILE appropriation.

Condensed Financial Information (in thousands)

Statements of Cash Flows

For the Fiscal Years Ended June 30

	<u>2008</u>	<u>Percentage Increase (Decrease)</u>	<u>2007</u>	<u>Percentage Increase (Decrease)</u>	<u>2006</u>
Net cash provided by (used in):					
Operating activities	\$ 2,762	33.4%	\$ 2,070	-60.0%	\$ 5,177
Non-capital financing activities	1,099	-34.1%	1,667	29.6%	1,286
Capital and related financing activities	(5,959)	-11.0%	(6,695)	36.6%	(4,900)
Investing activities	<u>530</u>	-27.9%	<u>735</u>	-42.7%	<u>1,282</u>
Net change in cash and cash equivalents	(1,568)	-29.5%	(2,223)	-178.1%	2,845
Cash and cash equivalents, beginning of year	<u>9,411</u>	-19.1%	<u>11,634</u>	32.4%	<u>8,789</u>
Cash and cash equivalents, end of year	<u>\$ 7,843</u>	-16.7%	<u>\$ 9,411</u>	-19.1%	<u>\$ 11,634</u>

KENTUCKY STATE FAIR BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

CAPITAL ASSETS ADMINISTRATION

The following table summarizes the changes in net capital assets (in thousands) between fiscal years 2008, 2007, and 2006.

	<u>2008</u>	Percentage Increase (Decrease)	<u>2007</u>	Percentage Increase (Decrease)	<u>2006</u>
Construction in progress	\$ 1,270	-97.8%	\$ 57,890	257.9%	\$ 16,176
Land	24,520	0.0%	24,520	0.0%	24,520
Buildings and improvements	367,379	23.9%	296,536	1.5%	292,137
Machinery and equipment	5,102	5.3%	4,845	4.6%	4,630
Furniture and fixtures	382	0.0%	382	0.0%	382
Accumulated depreciation	<u>(131,217)</u>	6.8%	<u>(122,883)</u>	6.0%	<u>(115,905)</u>
	<u>\$ 267,436</u>	2.4%	<u>\$ 261,290</u>	17.7%	<u>\$ 221,940</u>

KENTUCKY STATE FAIR BOARD

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

The completion of the Louisville Arena in 2011 is expected to negatively impact the future lease revenue of the Fair Board. The Louisville Arena Authority is required to reimburse the Fair Board the effect of this negative impact over the first ten years of operations.

CONTACTING THE FAIR BOARD'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the Fair Board's finances for all of those with an interest. If you have any questions concerning the information provided in this report or need additional financial information, contact the Kentucky State Fair Board, 937 Phillips Lane, Louisville, Kentucky, 40209-1398.

KENTUCKY STATE FAIR BOARD

STATEMENTS OF NET ASSETS

	June 30	
	<u>2008</u>	<u>2007</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 7,843,270	\$ 9,410,928
Accounts receivable, net of allowance for doubtful accounts of \$243,255 in 2008 and \$139,814 in 2007	2,988,724	2,891,470
Prepaid expenses and other	<u>622,111</u>	<u>707,536</u>
Total current assets	11,454,105	13,009,934
Non-current Assets		
Restricted cash and cash equivalents	6,357,985	20,092,752
Property, plant and equipment, net of accumulated depreciation	267,435,618	261,289,662
Other assets, net of accumulated amortization	<u>850,428</u>	<u>955,905</u>
Total non-current assets	<u>274,644,031</u>	<u>282,338,319</u>
Total assets	<u>\$286,098,136</u>	<u>\$295,348,253</u>
LIABILITIES		
Current Liabilities		
Accounts payable and accrued expenses	\$ 2,991,735	\$ 2,758,970
Interest payable	357,657	364,556
Deferred revenue	3,949,546	4,931,915
Bonds payable, current portion	2,330,000	2,280,000
Obligations under capital lease, current portion	<u>625,001</u>	<u>583,397</u>
Total current liabilities	10,253,939	10,918,838
Non-current Liabilities		
Obligations under capital lease, long-term portion	6,152,724	6,704,112
Bonds payable, long-term portion	<u>51,509,479</u>	<u>53,963,662</u>
Total non-current liabilities	57,662,203	60,667,774
NET ASSETS		
Invested in capital assets, net of related debt	213,596,139	209,524,374
Restricted for capital construction	1,685,355	9,193,884
Unrestricted	<u>2,900,500</u>	<u>5,043,383</u>
Total net assets	<u>218,181,994</u>	<u>223,761,641</u>
Total liabilities and net assets	<u>\$286,098,136</u>	<u>\$295,348,253</u>

See accompanying independent auditor's report
and notes to financial statements

KENTUCKY STATE FAIR BOARD**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**

	Year ended June 30	
	<u>2008</u>	<u>2007</u>
Operating Revenues		
Charges for services	\$ 39,841,346	\$ 37,106,892
Lease income	<u>3,020,130</u>	<u>3,264,567</u>
Total operating revenues	42,861,476	40,371,459
Operating Expenses		
General and administrative	9,066,388	9,048,552
Operating	12,463,348	11,741,719
Direct cost of events	17,955,670	16,623,519
Depreciation and amortization	<u>9,013,373</u>	<u>7,752,893</u>
Total operating expenses	<u>48,498,779</u>	<u>45,116,683</u>
Operating loss	(5,637,303)	(4,795,224)
Non-Operating Revenues (Expenses)		
Interest expense	(2,413,971)	(2,181,812)
Interest and investment revenue	530,497	735,316
Other, net	852,047	1,269,619
Net payments from the Commonwealth	<u>1,089,083</u>	<u>51,807,012</u>
Total non-operating revenues (expenses)	<u>57,656</u>	<u>51,630,135</u>
Change in net assets	(5,579,647)	46,834,911
Total Net Assets, Beginning of Year	<u>223,761,641</u>	<u>176,926,730</u>
Total Net Assets, End of Year	<u>\$218,181,994</u>	<u>\$223,761,641</u>

See accompanying independent auditor's report
and notes to financial statements

KENTUCKY STATE FAIR BOARD

STATEMENTS OF CASH FLOWS

	Year ended June 30	
	2008	2007
Cash Flows from Operating Activities		
Cash received from customers	\$ 41,781,853	\$ 38,508,054
Cash payments to suppliers for goods and services	(18,663,583)	(19,310,645)
Cash payments for employee salaries and benefits	<u>(20,355,842)</u>	<u>(17,127,344)</u>
Net cash provided by operating activities	2,762,428	2,070,065
Cash Flows from Non-Capital Financing Activities		
Non-operating income	852,047	1,269,619
Net payments from the Commonwealth	<u>246,800</u>	<u>396,800</u>
Net cash provided by non-capital financing activities	<u>1,098,847</u>	<u>1,666,419</u>
Cash Flows from Capital and Related Financing Activities		
Acquisition and construction of capital assets	(15,201,642)	(47,438,413)
Transfers (to) from restricted cash	13,734,767	(5,601,737)
Net payments from the Commonwealth	842,283	51,410,212
Interest paid on bonds and capital lease obligations	(2,545,054)	(2,309,756)
Payments on bonds payable	(2,280,000)	(2,235,000)
Payments on capital lease obligations	<u>(509,784)</u>	<u>(520,184)</u>
Net cash used in capital and related financing activities	<u>(5,959,430)</u>	<u>(6,694,878)</u>
Cash Flows from Investing Activities		
Interest and investment revenue	<u>530,497</u>	<u>735,316</u>
Net Decrease in Cash and Cash Equivalents	(1,567,658)	(2,223,078)
Cash and Cash Equivalents, Beginning of Year	<u>9,410,928</u>	<u>11,634,006</u>
Cash and Cash Equivalents, End of Year	<u>\$ 7,843,270</u>	<u>\$ 9,410,928</u>
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities		
Operating loss	\$ (5,637,303)	\$ (4,795,224)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization	9,013,373	7,752,893
Allowance for doubtful accounts	103,441	(1,052,593)
Loss on disposal of fixed assets	147,791	440,499
Changes in assets and liabilities:		
Accounts receivable	(200,695)	(240,466)
Prepaid expenses and other	85,425	(81,150)
Accounts payable and accrued expenses	232,765	616,452)
Deferred revenue	<u>(982,369)</u>	<u>(570,346)</u>
Net cash provided by operating activities	<u>\$ 2,762,428</u>	<u>\$ 2,070,065</u>

See accompanying independent auditor's report and notes to financial statements

KENTUCKY STATE FAIR BOARD

NOTES TO FINANCIAL STATEMENTS

June 30, 2008 and 2007

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Scope of Entity: The Fair Board is a component unit of the Commonwealth of Kentucky and is included in the Commonwealth of Kentucky's comprehensive annual financial report. The criteria for inclusion, as defined by the Governmental Accounting Standards Board, is determined on the basis of: 1) selection of governing authority; 2) designation of management; 3) ability to significantly influence operations; and 4) accountability for fiscal matters.

Basis of Presentation: The accompanying financial statements have been prepared as an enterprise fund of the Commonwealth of Kentucky. Enterprise funds are designed to accumulate the total cost of providing a particular service and to indicate the extent user charges are sufficient to cover these costs. Revenue generated from user charges and leases is classified as operating revenue while all other sources of revenue are considered non-operating revenue. The Kentucky State Fair Board (Fair Board) uses the accrual basis of accounting for financial accounting and reporting purposes.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Statement of Cash Flows: For purposes of the statement of cash flows, the Fair Board considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash paid for interest was \$2,545,054 and \$2,309,756 for the years ended June 30, 2008 and June 30, 2007, respectively.

Property, Plant and Equipment: Property, plant and equipment expenditures over \$5,000 are capitalized and recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Amortization is provided over the estimated useful life of leased assets or the lease term, whichever is shorter. The following is a summary of the estimated useful lives used in computing depreciation:

Buildings and improvements	5-50 years
Machinery, equipment and leasehold improvements	3-25 years
Furniture and fixtures	3-25 years

Depreciation expense for the years ended June 30, 2008 and 2007 was \$8,907,895 and \$7,648,068, respectively.

Other Assets: Other assets consist primarily of deferred debt issuance costs and deferred charges for leasing start-up costs incurred in connection with leasing the Hyatt Regency Louisville. Debt issuance costs are deferred and amortized over the life of the bonds, utilizing the bonds outstanding method, which approximates the effective interest method. The deferred charges are being amortized using the straight-line method over approximately 30 years.

Advertising Costs: The Fair Board expenses the costs of advertising as incurred. Advertising expense was \$428,938 and \$534,720 for the years ended June 30, 2008 and 2007, respectively.

Continued

KENTUCKY STATE FAIR BOARD

NOTES TO FINANCIAL STATEMENTS--CONTINUED

June 30, 2008 and 2007

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--CONTINUED

Deferred Revenue: The Fair Board receives revenue in advance for user charges prior to an event's occurrence. Revenue received in this way is recorded as deferred until the event is completed. Revenue is recognized upon completion of the event.

NOTE B--CONTINGENCIES

The Fair Board is party to certain litigation. Due to the fact the Fair Board is an agency of the Commonwealth of Kentucky; the Fair Board is subject to sovereign immunity and is not responsible to settle this litigation. The Commonwealth has the responsibility for settling all significant claims for the Fair Board; therefore, no disclosure or accrual regarding litigation is required as a part of these financial statements.

NOTE C--CONCENTRATION OF CREDIT RISK

The Fair Board maintains accounts at several financial institutions, each of which are insured by the Federal Deposit Insurance Corporation (FDIC) for up to \$100,000 per customer. For the years ended June 30, 2008 and 2007, the Fair Board's cash balances exceeded the FDIC limit by \$5,221,577 and \$8,306,792, respectively. The excess funds are covered by collateral held by the pledging institution's trust department in the Fair Board's name.

NOTE D--PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consists of the following components:

	June 30	
	2008	2007
Land	\$ 24,520,225	\$ 24,520,225
Buildings and improvements	367,378,091	296,535,633
Machinery and equipment	5,102,126	4,844,922
Furniture and fixtures	382,163	382,163
Construction in progress	1,270,029	57,889,726
	398,652,634	384,172,669
Less accumulated depreciation	<u>(131,217,016)</u>	<u>(122,883,007)</u>
	<u>\$267,435,618</u>	<u>\$261,289,662</u>

KENTUCKY STATE FAIR BOARD

NOTES TO FINANCIAL STATEMENTS--CONTINUED

June 30, 2008 and 2007

NOTE E--DEPOSITS AND INVESTMENTS

All Fair Board receipts are deposited directly in the Commonwealth's general depository or depositories designated by the State Treasurer, which has statutory responsibility and authority to safeguard the funds. At June 30, 2008 and 2007, the Fair Board's share of deposits in the Commonwealth's general depository (State investment pool) totaled \$4,349,677 and \$15,773,827, respectively.

The Commonwealth's Comprehensive Annual Financial Report (CAFR) for the years ended June 30, 2008 and 2007 should be referred to for disclosures required by GASB Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements" and GASB Statement No. 40, "Deposit and Investment Risk Disclosures" (an amendment of GASB Statement No. 3).

NOTE F--RESTRICTED CASH AND CASH EQUIVALENTS

Restricted cash and cash equivalents include construction fund accounts and a debt service reserve fund.

The construction funds accounts are retained by the Kentucky State Treasury as special accounts designated solely for the payment of all approved capital construction projects. The debt service reserve fund consists of bond proceeds retained by the bond trustee and paying agent to secure payment of the bonds as further described in Note L.

	<u>2008</u>	<u>2007</u>
Construction funds		
Cash	\$ -	\$ 509,441
Investments	<u>1,685,355</u>	<u>14,910,681</u>
	1,685,355	15,420,122
Debt service reserve fund	<u>4,672,630</u>	<u>4,672,630</u>
	<u>\$ 6,357,985</u>	<u>\$ 20,092,752</u>

NOTE G--OTHER ASSETS

Other assets consist of the following:

	<u>2007</u>	<u>2007</u>
Contribution to Hyatt Regency Louisville	\$ 2,000,000	\$ 2,000,000
Deferred debt issuance costs	973,172	973,172
Facility development plan cost	<u>48,000</u>	<u>48,000</u>
	3,021,172	3,021,172
Less accumulated amortization	<u>(2,170,744)</u>	<u>(2,065,267)</u>
	<u>\$ 850,428</u>	<u>\$ 955,905</u>

KENTUCKY STATE FAIR BOARD

NOTES TO FINANCIAL STATEMENTS--CONTINUED

June 30, 2008 and 2007

NOTE H--REVENUE BONDS ISSUED BY THE COMMONWEALTH OF KENTUCKY

The Commonwealth of Kentucky State Property and Buildings Commission (the Commission) has issued revenue bonds for the acquisition and construction of certain projects, including the development of the Kentucky International Convention Center, parking structures and various capital improvements, including an exposition hall added to the Kentucky Fair and Exposition Center. The revenue bonds are included in the general long-term debt account group of the Commonwealth of Kentucky (the Commonwealth) since the Commonwealth intends to make the required principal and interest payments on these obligations and has made all such payments to date. The properties have been contributed to the Fair Board and are included in property, plant and equipment.

NOTE I--LEASE INCOME

The Fair Board is the lessor of real property under non-cancelable operating leases for terms ranging from 3 to 40 years. The leases expire from 2008 through 2043. Most leases contain renewal options ranging from 5 to 50 years. Minimum future lease income under non-cancelable operating leases at June 30, 2008 is as follows:

<u>Year ending June 30</u>	
2009	2,439,313
2010	2,522,011
2011	2,565,941
2012	2,605,908
2013	2,642,549
Thereafter	<u>17,873,518</u>
Total minimum future lease income	<u>\$ 30,649,240</u>

The above amounts do not include contingent lease income which may be received based upon percentages of gross receipts from tenants, as defined in the lease agreements. Contingent lease income was approximately \$1,210,999 and \$1,546,831 in fiscal 2008 and 2007, respectively.

NOTE J--PENSION PLAN

All full-time and certain part-time employees of the Fair Board participate in the Kentucky Employees Retirement System (KERS), a cost-sharing, multiple-employer defined benefit pension plan administered by the Kentucky Retirement System. The plan provides for retirement, disability and death benefits to plan members. Cost-of-living adjustments (COLA) are provided at the discretion of the State legislature.

The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the KERS. That report may be obtained by writing to Kentucky Retirement System, Perimeter Park West, 1260 Louisville Road, Frankfort, Kentucky 40601-6124.

Continued
KENTUCKY STATE FAIR BOARD

NOTES TO FINANCIAL STATEMENTS--CONTINUED

June 30, 2008 and 2007

NOTE J--PENSION PLAN--CONTINUED

Plan members are required to contribute 5% of their annual covered salary and the Fair Board is required to contribute at an actuarially determined rate. The rate was 8.50% and 7.75% of annual covered payroll for 2008 and 2007, respectively. The contribution requirements of plan members and the Fair Board are established and may be amended by the Kentucky Retirement System's Board of Trustees. The Fair Board's contributions to KERS for the years ending June 30, 2008 and 2007 were approximately \$945,391 and \$770,100, respectively, equal to the required contributions for each year.

NOTE K--CAPITAL LEASES

On February 10, 2007, the Commonwealth of Kentucky, acting by and through the Commerce Cabinet, entered into a master lease contract with Citimortgage, Inc. for certain equipment related to the Fair Board Energy Savings Performance Contracting (ESPC) project. ESPC is the development of a contract with an energy service company for the purpose of providing services and capital improvements in order to reduce the consumption and related costs of energy and water use. The Fair Board subsequently entered into a memorandum of understanding with the Commonwealth of Kentucky whereby it assumed the financial obligations of the master lease contract. The Fair Board has recorded this obligation as a capital lease.

Additionally, the Fair Board leases various equipment under leases classified as capital leases. The following is a schedule by years of future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of June 30, 2008:

<u>Year ending June 30</u>	
2009	\$ 860,704
2010	833,312
2011	792,932
2012	759,724
2013	742,437
Thereafter	<u>4,131,796</u>
Total minimum lease payments	8,120,905
Less amount representing interest	<u>(1,343,180)</u>
Present value of net minimum lease payments*	<u>\$ 6,777,725</u>

* Reflected in the balance sheet as current and non-current obligations under capital leases of \$625,001 and \$6,152,724, respectively.

Assets held under capital leases included capital assets at June 30, 2008, include the following.

Equipment and improvements	\$ 8,343,488
Less: Accumulated depreciation/amortization	<u>(1,435,825)</u>
Total	<u>\$ 6,907,663</u>

Amortization of equipment under capital assets is included with depreciation expense.

KENTUCKY STATE FAIR BOARD

NOTES TO FINANCIAL STATEMENTS--CONTINUED

June 30, 2008 and 2007

NOTE L-- BONDS PAYABLE

On November 19, 2003, the Commonwealth of Kentucky State Property and Building Commission (Commission) issued \$55,300,000 in bonds payable on behalf of the Fair Board. The proceeds of the bonds were used to finance the 237,000 square-foot expansion of the Kentucky Fair and Exposition Center in Louisville, Kentucky. The bonds bear interest at a fixed rate which vary from 2.00% to 5.00% and have a final maturity date of November 1, 2023.

In connection with the issuance of the bonds, the Commonwealth of Kentucky Finance and Administration Cabinet (Cabinet) entered into a financing/lease agreement with the Commission whereby the Cabinet agreed to lease the newly constructed building. The Cabinet, in turn, entered into a financing/sublease agreement with the Fair Board whereby the Fair Board agreed to sublease the newly constructed building. The lease was for an initial eight month term ended June 30, 2004, with the right to renew for ten succeeding two-year renewal periods. The Fair Board can cancel the lease on the last business day in June immediately preceding the beginning of any renewal term. The lease payments are equal to the debt service required by the bond indenture. The Fair Board renewed the lease for the biennium ending June 30, 2008.

On September 14, 2005, the Commission issued \$5,840,000 in bonds payable on behalf of the Fair Board. The proceeds of the bonds are to be used to finance the East Wing/East Hall reconstruction project of the Kentucky Fair and Exposition Center in Louisville, Kentucky. The bonds bear interest at a fixed rate which vary from 3.00% to 4.25% and have a final maturity date of May 1, 2026.

The Fair Board has followed consolidation accounting principles as it relates to the issuance of the bonds and entering into the related sublease agreement. As such, the Fair Board has recorded the proceeds of the bonds as restricted cash and cash equivalents and recorded the related debt, debt issuance costs, and construction in progress incurred to date. Net interest costs from the tax exempt debt incurred from the date of issuance of the bonds through the date of project completion have been capitalized as part of the building cost. A premium on bonds payable in the amount of \$1,792,918 was received upon issuance of the 2003 bonds. At June 30, 2008, the unamortized bond premium in the amount of \$1,204,856 has been reported as a direct addition to the face amount of the bonds and is being amortized over the life of the bonds using the effective interest method.

A summary of the activity for the bond issue, at principal amount, for the year ended June 30, 2008 is as follows:

	<u>June 30, 2007</u>	<u>Additions</u>	<u>Payments</u>	<u>June 30, 2008</u>
Bonds payable	\$54,965,000	\$ -	\$(2,280,000)	\$52,685,000

Continued

KENTUCKY STATE FAIR BOARD

NOTES TO FINANCIAL STATEMENTS--CONTINUED

June 30, 2008 and 2007

NOTE L-- BONDS PAYABLE--CONTINUED

Debt service requirements for the next five fiscal years and thereafter are as follows:

<u>Year ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2009	2,330,000	2,201,120
2010	2,410,000	2,132,070
2011	2,490,000	2,053,780
2012	2,570,000	1,965,999
2013	2,680,000	1,867,701
<u>Five years ending June 30</u>		
2014-2018	15,355,000	7,553,237
2019-2023	19,520,000	3,671,418
2024-2027	<u>5,330,000</u>	<u>202,932</u>
	\$ <u>52,685,000</u>	\$ <u>21,648,257</u>

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

To the Board of Directors
Kentucky State Fair Board
Louisville, Kentucky

We have audited financial statements of the Kentucky State Fair Board as of and for the year ended June 30, 2008, and have issued our report thereon dated September 29, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Fair Board's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Fair Board's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fair Board's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We did not identify any deficiencies in internal control over financial reporting that we consider to be a significant deficiency, as defined above.

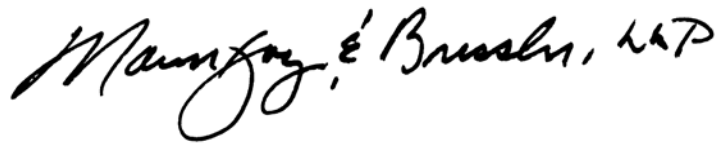
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be a material weakness, as defined above.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Fair Board's financial statement for the year ended June 30, 2008, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, the Board of Directors, and the Auditor of Public Accounts of the Commonwealth of Kentucky, and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, reading "Manning & Bruesch, LLP". The signature is written in a cursive, flowing style.

Louisville, Kentucky
September 29, 2008

KENTUCKY STATE FAIR BOARD

SCHEDULE OF FINDINGS

June 30, 2008

Schedule of auditor's results

We have issued an unqualified opinion, dated September 27, 2008, on the financial statements of the Kentucky State Fair Board as of and for the year ended June 30, 2008.

Our audit disclosed no instances of noncompliance which are material to the Kentucky State Fair Board's financial statements.

Findings relating to the financial statements

Our audit disclosed no findings which are required to be reported in accordance with *Government Auditing Standards*.

KENTUCKY STATE FAIR BOARD

SCHEDULE OF PRIOR AUDIT FINDINGS AND THEIR RESOLUTION

June 30, 2008

The audit as of and for the year ended June 30, 2008, disclosed no findings that are required to be reported in accordance with *Government Auditing Standards*.